Pellet Fuels Institute Statement
on Expired and Expiring Tax Provisions
Hearing of the Subcommittee on Select Revenue Measures
House Committee on Ways and Means
April 26, 2012

The Pellet Fuels Institute (PFI) appreciates the opportunity to share its perspective on extending the expired Section 25(c) residential energy efficiency tax credit. PFI is a North American trade association promoting energy independence through the efficient use of clean, renewable, densified biomass fuel. Its members are densified wood and other biomass pellet fuel producers, distributors and equipment manufacturers that view biomass thermal energy as a renewable, responsible, clean and energy-efficient pathway to meeting America's energy needs.

Summary

PFI strongly supports restoration and extension of the Sec. 25(c) credit for energy efficient property. Included within this section of the Internal Revenue Code is a provision that allows consumers to claim a tax credit for purchasing a biomass (pellet) burning stove. The existing cap on this credit is 10% (up to $300), down from 30% (up to $1,500) during the 2009 and 2010 tax years.

Pellet stoves provide an efficient, cost effective, environmentally sound means by which to heat individual living spaces and whole homes. Super clean, highly efficient combustion technology deployed by pellet stove manufacturers ensures maximum heat delivery into the home per pound of pellet fuel consumed. Biomass combustion is a proven technology, with over 1.5 million pellet-burning appliances currently in operation in homes and small businesses across the U.S. Most of the biomass burning units that qualify for the 25(c) credits are manufactured domestically, creating jobs, while providing energy savings to average Americans.

In regions such as the northeast and north-central states that rely heavily on imported fossil energy for home and business heating, densified biomass fuel has the potential to greatly reduce consumption of heating oil and propane. The northeast, in particular, is extremely vulnerable to heating oil price shocks and supply disruptions; in that region, biomass can sustainably offset as much as 25 percent of oil used to heat homes and businesses[i].

Despite that fact that federal government policy has consistently supported biomass for the generation of electricity or more recently for the development of biofuels, biomass used for heat is the most efficient form of usage. According to the Energy Information Administration, biomass thermal conversion efficiencies consistently reach 80 percent, whereas biomass used for electricity generation, for example, only achieve efficiencies of 25 percent. In other words, biomass utilized in thermal applications, such as pellet burning appliances, retains 80 percent of its energy value.

The United States Department of Agriculture (USDA) estimates that there are 1 billion tons of forest and agricultural residues that can be produced sustainably each year for energy. The

primary feedstock for manufacturing pellets is sawmill residuals, such as sawdust and shavings that are produced during lumber processing. PFI members provide American sawmills a valuable economic outlet for this material, supply and demand for which provides benefits up and down the forest products value chain. Pellet mills typically source their feedstocks within a 100 mile radius of the plant, generating revenue as well as direct and indirect jobs in local communities. Utilizing biomass also provides needed markets for forest landowners working to maintain the health and viability of their timberlands.

According to the U.S. Forest Service, this country has more forested acres today than in 1953 despite an unprecedented housing boom in the interceding decades. Demand for forest products-whether it is lumber, tissue or pellets-is the engine that drives the forest growing cycle. Since so much of the forestland in the U.S. is privately held, these landowners—mainly families with parcels of 300 acres or fewer—depend on an economic return to maintain the health and productivity of water, air and timber resources. Without markets for forest fiber, these landowners will inevitably be forced to find alternative sources of necessary revenue, such as selling the property for development, resulting in permanent deforestation.

Why Are Tax incentives Necessary?

The relatively small market penetration of modern densified biomass fuel units, means these systems are currently expensive compared to existing fossil-fueled systems; installed systems can cost twice as much as a similarly sized oil or gas systems. This tax incentive will help to increase the availability of clean-burning thermal technology to homeowners' of various income levels.

Additionally, many of PFI's members will attest that significant portions of their sales are to homeowners looking to replace "dirtier", less efficient stick wood burning stoves. This results not only in increased energy efficiency for the user, but a healthier environment for the whole community.

While oil and natural gas prices may rise and fall over the years, it is important for this nation's security, prosperity and environmental future that a sound, balanced mix of viable domestic energy alternatives are developed and maintained. Wind, solar, and biofuels currently enjoy significant governmental incentives. PFI believes that certain efficient energy technologies should not be put at a disadvantage relative to other technologies.

The United States is the potential world leader in the production of biomass pellet appliances and the clean burning fuel required for them. Within the next year, exports of this renewable energy source will surpass domestic biomass pellet consumption. It is important that this country invest in and develop both domestic and foreign end-user markets in order to create the maximum benefits to this nation's jobs, economy, energy security and environment.

Crafted correctly, this incentive demonstrates the ongoing support of this nation's government, sending an important message and satisfying the twin objectives of supporting innovation while attracting private capital that is critical to driving long term economic growth.

As economies of scale are reached and market penetration increased, these incentives can be scaled down or eliminated.

Conclusion

The current fiscal environment in which this nation is operating necessitates that tax payer dollars be deployed in a manner that maximizes return on investment. PFI believes that investment in technologies, like thermal energy from biomass, that achieve optimal efficiency and job creation potential should be embraced, not only by extending the Sec. 25(c) tax credit, but should be a focus of energy tax reform efforts moving forward. Incentives will help build a market for high efficiency systems that can reduce American dependence on foreign fossil energy, reduce greenhouse gas emissions, and create jobs and local economic development from a renewable, sustainable domestic energy resource.

PFI looks forward to working with the Committee as it begins its work on this critical issue.

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[i] Northeast Thermal Biomass Working Group 2025 Vision, http://www.nebioheat.org/vision.asp

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